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Policy paper 7: Urban economic development strategies*

Note by the secretariat

The secretariat of the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) hereby transmits a policy paper entitled "Urban economic development strategies", prepared by the members of Policy Unit 7.

Habitat III policy units are co-led by two international organizations and composed of a maximum of 20 experts each, bringing together individual experts from a variety of fields, including academia, government, civil society and other regional and international bodies.

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Policy paper 7: Urban economic development strategies

Executive summary

Strengthening urban economies, creating jobs and enhancing livelihoods

In 2016, over half of the global population is living in cities and the rate of urbanization is accelerating in the developing world. Unfortunately, the economy of most cities in the developing world is not keeping pace with population growth. As a result, workers in the informal economy comprise 50 per cent or more of the workforce, enduring poor working conditions and insecure livelihoods. Under these conditions, the slum is the emerging urban form. Almost 900 million people live and work in informal settlements, a figure growing 10 per cent annually. In the developed world, the challenges of structural adjustment and de-industrialization have put enormous pressure on many previously affluent cities. Others are flourishing, creating unprecedented concentrations of high-value employment in the creative economy. But land values and the cost of housing in these cities have increased dramatically, adversely affecting the working poor. In this context, it is imperative that urban governments and stakeholders become more effective at facilitating and accelerating inclusive economic development that harnesses the creative potential of the city to generate decent work opportunities for millions of new citizens.

Habitat III is challenging the global community to consider this question in the context of the Sustainable Development Goals and the need for action to mitigate climate change negotiated at COP21. The world will be an urban place, and it is therefore necessary for cities to be partners to the global response to sustainability and climate change challenges. Urban economies also have the potential to generate the ideas and wealth to solve some of the most pressing challenges. Their economic performance is therefore critical to achieving the Sustainable Development Goals.

This paper argues for a two-pronged approach. First, cities need to address the underlying conditions that support them: efficient and transparent regulatory frameworks; coherent land markets; effective infrastructure (power, transit, transport, water, sanitation); urban financial systems that provide sustainable funding to cities; and land use planning that delivers a compact urban form. The solutions to most of these challenges are addressed in more detail in other Habitat policy papers. Second, cities must proactively facilitate an economic development process with the stakeholders in the economy, and require the governance mandate and capacity for this role. In this process, through dialogue with key stakeholders, the priorities for local action that can strengthen the urban economy will emerge.

Cities and their economies are spectacularly diverse. As a result, there is no single prescriptive solution to the economic development challenges they face. The stakeholders of each urban economy must find their path forward. It is in the interests of national Governments and international organizations to support their effort. The role of local government, democratically accountable to citizens, is to facilitate the conversation among stakeholders, provide leadership in investment and action, and rally support by upper levels of government and the international community.

An urban economy consists of hundreds of thousands or millions of actors engaged in countless economic decisions and transactions daily. It has tremendous

momentum, and the ability of any one organization to alter its course is very limited. Local governments do not have the resources to reshape the economy without the support of their stakeholders. And even their concerted action takes time to achieve results. In this way a city is somewhat like a container ship, the trajectory of which is impossible to change instantly, but when changed only a few degrees will end up in a very different place over time.

Section I of this policy paper articulates a vision for the future urban economy in 2036 and a set of principles that should guide urban economic development and conditions that must underpin it.

Section II identifies the fact that cities around the world face a wide range of economic development challenges. Population growth exceeds employment growth in most cities of the developing world. The formal economy in these cities is dwarfed by the informal economy, leading to harsh and difficult conditions for most workers. Infrastructure is inadequate to accommodate population growth and urban economies are not generating sufficient wealth to support the level of investment required. A small number of global cities dominate the frontier of the innovation and creative economy. But even in the developed world, cities struggle with structural adjustment. These challenges are daunting, but, as cities around the world have demonstrated, not insurmountable.

Section III specifies a framework for prioritizing challenges and policies for urban economic development and the New Urban Agenda. Cities must create more robust and inclusive economies with increased levels of productive employment and decent work. To do this, urban governance must be strengthened and focused. A business environment that is supportive of private investment in all sectors, formal and informal, needs to be established. Gaps in strategic infrastructure must be addressed. A compact urban form supported by high-order transit is required for cities to achieve sustainable economic development. Urban strategy must increase the capacity for innovation and investment that leads to the transformation of the economy. That strategy must be able to increase and harness the capacity of both the formal and informal economy.

Section IV outlines the actors involved, ranging from international bodies, nation States, municipal governments, educational institutions, the private sector, civil society and informal community leaders. It is a complex constellation of actors often working in isolation of each other. Power is inequitably distributed among the players. Politics, competing interests and the cultural milieu often work against collaboration and confound effective decision-making. All the while, the urban economy continues to evolve and the city continues to grow, often in dense, unserviced slums.

Section V addresses policy design, implementation and monitoring issues to enhance the probability of successful urban economic development. The public policy objective is clear. But success is only possible if all of the stakeholders — local government, the corporate private sector, the informal economy, civil society, including educational institutions and trade unions — are involved in addressing the challenges and identifying the opportunities of urban economic development.

The paper concludes with key recommendations and steps for moving forward on this ambitious, but essential, agenda.

I. Vision and framework of the policy paper's contribution to the New Urban Agenda

1. Although cities are engines of growth, they are spaces of contradiction with extreme concentrations of both wealth and poverty.[1] While most cities face infrastructure, financial management and institutional challenges, it is in cities in the global South where these challenges are felt most acutely. In these countries, urbanization is outpacing economic growth and job creation; there is underinvestment in urban infrastructure and poor human development outcomes for the majority of urban dwellers. Employment-led economic development is therefore a primary concern for city governments and other stakeholders of the urban economy.

A. Our vision for 2036

2. Our vision is that within two decades, by 2036, cities have responded successfully to the profound social, economic and physical challenges they faced in 2016. An improved business environment has created new opportunities for investment and growth in both formal and informal businesses. The creative energy of cities around the world has generated new opportunities in the formal economy and led to a gradual extension of worker benefits, legal and social protection plus public services to the informal workforce.[2] Urban governments have the capacity to facilitate strong partnerships around economic development strategy.[3] Over the next 20 years, cities will have seen increased improvements in the physical and organizational infrastructure required to support growing urban populations and their aspirations. Cities are more compact, liveable and sustainable and are supported by strategic investments in low-carbon transit infrastructure. Increased local revenues have led to better and more reliable infrastructure services and improved living standards for all urban citizens, particularly the poor.

B. Guiding principles

3. To achieve our vision, we outline four key principles and five enabling conditions that are critical to strengthening urban economies, creating jobs and enhancing urban livelihoods within an inclusive economic development framework:

(a) Principle 1: urban economic growth and development must be inclusive. Urban governments have a responsibility to facilitate inclusive urban economic growth, which aims at expanding urban economies in ways that all, not just a few, urban dwellers benefit;

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[1] United Nations (2010), *State of the World's Cities 2010/2011. Bridging the Urban Divide*, Nairobi, United Nations Human Settlements Programme.

[2] Glaeser, E. (2012), *Triumph of the City*, London, Penguin Books.

[3] Otgaar, A., L. van den Berg, J. van der Meer and C. Speller (2012), "Urban Competitiveness and Sustainable Territorial Development: the Nedd for New Perspectives on Metropolitan Governance", in J. Sobrino (ed.), *Urban Competitiveness. A Global and for Mexico Perspective*, Mexico City, El Colegio de México, pp. 257-286.

(b) Principle 2: urban economic growth and development must occur within a strong rights framework. Economic growth in cities must be founded on strong human rights principles. Specifically:

(i) The right of all to the city, including the right of marginalized groups to equitable access to public resources and services, including public land;

(ii) The right of all to decent work and productive economic opportunities;

(iii) The right of all to adequate shelter, infrastructure and urban services;

(c) Principle 3: urban economic growth and development must contribute to local and national sustainable development. An inclusive and successful urban economy also recognizes the importance of balancing economic growth with environmental sustainability, by supporting innovation in the green economy, and urban cohesion, by reducing social and territorial inequalities;

(d) Principle 4: urban economic growth and development must enable, not destroy, informal livelihoods. The economic development strategy should aim to provide multiple avenues through which informal workers and entrepreneurs can expand their businesses, increase their productivity, and climb up the economic ladder.

4. In order to achieve the principles above, cities need the following enabling and supporting conditions to be in place:

(a) Well-governed and accountable local, regional and national institutions;

(b) Business environments that are supportive of investment in formal and informal sector activities;

(c) Policy dialogues and partnerships between local government, private sector and civil society organizations, including organizations of informal workers, that promote investment, productive employment/decent work, wealth and security for all citizens;

(d) Physical and social infrastructure that strengthens productive factors and helps improve the quality of life of resident and workers;

(e) Support for innovation and entrepreneurship, two necessary ingredients of structural change in the urban economy that are contingent upon the educational, entrepreneurial and cultural milieu of the city.

C. Normative frameworks

5. The new urban economic agenda builds on and extends the work of existing global frameworks. Habitat II recognized the importance of cities as engines of growth and therefore the need to support and invest in infrastructure and human capital. Habitat II was explicit about supporting the informal economy to become more productive and integrated into the formal economy.[4] The agenda for Habitat III reiterates the Habitat II commitment to inclusive urban growth, and goes further to

[4] Tosics, I. (1997), "Habitat II Conference on Human Settlements, Istanbul, June 1996", *International Journal of Urban and Regional Research*, vol. 21, No. 2, pp. 366-372.

include provisions for increased investment in the creation of decent work and the enhancement of informal livelihoods.

6. In 2015 the global community adopted the Sustainable Development Goals, which are of critical importance to the urban economic agenda. While all the Goals are intrinsically linked to urban economic development,[5] four — Goal 1 on ending poverty in all its forms everywhere; Goal 8 on sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Goal 9 on resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation; and Goal 11 on inclusive, safe, resilient and sustainable cities — are particularly pertinent to this paper's remit. These form the bedrock of the new urban economic agenda that we propose in this document. Also relevant is a global standard adopted by the International Labour Organization in 2015, Recommendation 204 on the gradual transition from the informal to the formal economy, which calls for the preservation of informal livelihoods during the transition and for regulated access of informal workers to public space and natural resources.

II. Policy challenges

7. The urban economic development challenges faced by cities are diverse, varying with income levels, national contexts, and city-specific idiosyncrasies.[6] High-income cities struggle with the consequences of structural change, some facing the challenge of rapidly growing sectors, others dealing with the long-term consequences of declining sectors, outdated skills and high levels of unemployment. Emerging and developing economies face the challenges of generating sufficient quantity and quality of jobs and of upgrading informal wage and self-employment. All cities face challenges of inequality and marginalized groups, of meeting infrastructure needs, and of operating within tightly constrained budgets.

8. Cities also vary in their stage of economic development. Some in the developing world, particularly least developed countries, have economies with high levels of self-employment in the informal economy. Some have developed economies supporting employment in mass production. Cities with innovation-driven, high-wage economies are seeing an increase in start-up entrepreneurship (see annex II, box 1, on start-up cities).[7] It is also true that the ubiquitous distribution of mobile technology and improvements in educational infrastructure have created opportunities for cities in the developing world to advance innovation-driven economic development (e.g. the information technology industry in Bangalore, India, and the software start-up cluster in Nairobi).

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[5] For example, investment in education (Goal 4), gender equality (Goal 5), and sustainable energy (Goal 7), can both strengthen urban economic development and be supported by its success. Urban economic development is aligned with Goal 13 as it is supported by a more compact urban form and energy-efficient transportation systems, as well as opportunities in the green economy. Finally, urban economic development is both strengthened by and promotes peaceful and inclusive societies and effective, accountable inclusive institutions (Goal 16).

[6] Kresl, P. and J. Sobrino (eds.), *Handbook of Research Methods and Applications in Urban Economies*, Cheltenham, Edward Elgar.

[7] Zoltan J. Acs, Sameeksha Desai, Jolanda Hessels, Entrepreneurship, economic development and institutions, Small Bus Econ (2008) 31:219-234.

9. The foci of the challenges and policies discussed in this report are productive employment and livelihoods, necessary for economic growth and for wider economic and social development. However, job creation and livelihood enhancement have to be viewed in the context of the opportunities offered by cities to undertake investment — in housing, businesses, infrastructure, and skills development — and of urban governance. The policy paper is correspondingly wide-ranging. We think that these issues are important in all cities, although our focus is primarily on cities in the developing world. We recognize the heterogeneity of cities, the importance of understanding local circumstances and needs, and the danger of one-size-fits-all recommendations.

A. Productive employment challenge

10. In the past, it was widely assumed that people migrated to cities because of the job opportunities they offer.[8] But today, creating enough opportunities for decent and productive work for all is a major urban challenge. Over the past two decades, many cities around the world de-industrialized while a few others (notably China) industrialized very fast (see box 2 on macroeconomic reforms and economic development in urban China). And recent economic growth in many cities has been led by services, not manufacturing, including low-end personal services (which are labour-intensive) and high-end information technology services (which are not labour-intensive). The net result is that there are high rates of unemployment and, more so, informal employment in many cities around the world.

11. Unemployment, particularly youth unemployment, is a major challenge for cities. Recent ILO estimates suggest that the world unemployment rate was around 6 per cent in 2011 and was projected to grow at about 0.6 per cent each year, with the highest rate in the Middle East and North Africa (11-12 per cent) and the highest projected growth rate in developed economies (above 2 per cent per annum) (annex I, table 1). However, the numbers and percentage of unemployed pale in comparison to the numbers and percentage of working poor in the developing world: in 2011, there were an estimated 839 million working poor (earning less than $2 per day), representing 28.7 per cent of the global labour force (annex I, table 2). This signifies that the lack of productive employment, more so than open unemployment, lies at the heart of the employment challenge, especially in developing countries.

12. In developing regions, while there is a major challenge of youth unemployment, unemployment rates are relatively low (4-7 per cent) and not growing significantly, except in the Middle East and North Africa. In all developing regions other than the Middle East and North Africa, informal employment comprises more than one half of non-agricultural employment: from just over half in Latin America to two thirds in Africa and South-East Asia to over 80 per cent in South Asia (annex I, table 3). This is because in these regions, historically, the majority of the workforce has always earned their livelihoods in the informal economy, and, over time, many new entrants into the labour force and those who lose formal wage jobs have sought work in the informal economy, as they could not afford to remain unemployed.

[8] Boyle, P., K. Halfacree and V. Robinson (1998), *Exploring Contemporary Migration*, Harlow, Pearson.

13. Most of those who are engaged in the informal economy are poor. In most developing countries, the urban informal workforce is composed primarily of construction workers, domestic workers, home-based producers, street vendors, transport workers and waste pickers. Many are wage workers not just for informal firms but also for formal firms and households; the others are self-employed. Only one segment of informal workers — employers — enjoys average earnings above the national poverty line. But employers comprise only 2 per cent of informal employment in sub-Saharan Africa and South Asia and 9 per cent in East and South-East Asia (excluding China).[9] The other segments within the informal workforce, defined by status in employment and ranked in descending order of average earnings, include employees, own-account workers, casual wage workers, industrial outworkers and unpaid contributing family workers. Within this hierarchy, women are underrepresented among employers and overrepresented in the segments with the lowest earnings, as industrial outworkers and unpaid contributing family workers.[10]

14. To sum up, the employment challenge for cities today, especially in developing countries, is to create more decent formal wage jobs, to create more opportunities for productive self-employment, and to enhance existing livelihoods in the informal economy.

B. Investment for employment

15. Underlying the employment challenge is an investment challenge. Successful urban economic development requires that four main investment processes are functioning. One is housing investment, primarily in building residential capital stock, but also in building workspaces for small and informal enterprises. The second is infrastructure investment, in utilities (which may be either public or private), in other basic infrastructure services (water, sanitation) and in public transport and public services. The third is business investment, in both formal and informal firms and in both service and manufacturing sectors. The last is investment in human capital, building the skill levels of the urban population. These investment processes are central, both because of the jobs they directly create during the investment and construction process, and also because they create the assets that make cities liveable and productive.

Housing investment

16. The failure of many cities to generate sufficient formal residential investment in affordable and accessible locations is apparent from the prevalence of slum housing in many developing country cities, and of substandard housing in many richer countries. In Africa, over 60 per cent of the urban population,[11] some 200 million people in sub-Saharan Africa alone,[12] live in slums or squatter settlements, and the global population of slum dwellers is growing at an estimated 10 per cent annually. There are multiple causes for this, one being a fundamental problem of affordability. African

[9] Chen, Martha, Joann Vanek and James Heintz. (2006), *Informality, Gender and Poverty: A Global Picture*.

[10] Ibid.

[11] http://unhabitat.org/wp-content/uploads/2014/07/WHD-2014-Background-Paper.pdf.

[12] http://unhabitat.org/urban-themes/housing-slum-upgrading/.

urbanization is proceeding at lower levels of per capita income than has been the case in other regions, and there are technical challenges in producing a serviced housing unit that is affordable at such low income levels. A second problem arises because of lack of clarity in land rights. Investment in residential and workplace structures is impeded if these rights are unclear and subject to expensive and often inconclusive disputes (see annex II, box 3, on government legalization of informal settlements in Senegal). However, it is also both feasible and desirable to upgrade housing in slum and squatter settlements without de jure tenure.

17. A third factor is inappropriate regulation. Many economic actions and interactions need regulating, particularly in a confined and congested urban context. But often the regulations that are in place are inappropriate for the context. These have the effect of restricting economic activity and sometimes unduly favouring some groups at the expense of others. Regulations are often widely ignored by formal firms, informal firms and government itself. This has knock-on effects, which are often extremely costly. In the context of residential investment, building and other regulations are set at standards which are too high to be attainable or sustainable. In many cities a majority of buildings contravene these regulations. The failure of housing investment matters for several reasons. First, it simply lowers well-being — of the current generation and the next, brought up in environments which may be overcrowded, unhealthy and risky, making both domestic chores and market-oriented work very difficult. Beyond this, it makes for a low-productivity city. Large unserviced slums with poor transport services reduce the productivity of informal workers by extending time required for domestic chores and the commute to places of employment and business. This matters also because the home is often the base for work, particularly for those in the informal economy, and informal settlements are often sites of small industrial clusters. If it is difficult to make the investments for such activity to prosper, then urban economic development is retarded.

Infrastructure investment

18. The infrastructure deficit is widely documented. Estimates of infrastructure investment requirements to meet the Sustainable Development Goals suggest that $1.6 trillion-$2.5 trillion is needed each year between 2015 and 2030 in developing countries alone[13] (annex I, table 4). In Africa, infrastructure needs are estimated at $90 billion per annum, amounting to 15 per cent of African GDP each year and more than 50 per cent greater than current spending rates. This massive deficit is due partly to the financial constraints on governments (central and especially local), with tax bases that are inadequate to raise the sums required or to offer adequate collateral for debt finance. It is also due, in many contexts, to the regulatory and political environment. While in many high-income countries it has proved possible to mobilize private finance for power, telecommunications and water investments, many developing economies have regulatory and business environments in which this has proved impossible. Consequences of these low levels of investment are evident. Lack of access to reliable and affordable sources of power is often cited as one of the major obstacles to doing business.[14] Lack of transport investment leads to congestion and further undermines connectivity in the city (particularly when

[13] UNCTAD 2014, World Investment Report 2014: Investing in the Sustainable Development Goals: An Action Plan, p. 140.

[14] Thomas B.A., C. J. Dalgaard "Power outages and economic growth in Africa", Energy Economics, vol. 38, July 2013, pp. 19-23.

combined with residential sprawl). Development of networks is transforming business activity in the developing world, empowering workers in the informal economy to achieve higher productivity rates.[15] However, this development cannot be taken for granted. Workers find it hard to access jobs, and business-to-business communication is impeded. Transport infrastructure shapes the city and plays a role in coordinating the location of private investment. However, the design of transport systems needs to take into account the location of informal activities and the markets they deal in. Not taking all economic agents and their activities into account can make the city less productive and can have a deleterious effect on the time and health of commuters. Inadequate access to basic infrastructure services leads to the poor spending more time and money to procure them, while increasing the risks of communicable diseases spreading.

Business investment

19. Many developing cities have failed to create enough formal sector jobs. Attracting international investment — be it advanced technology in high-income countries or apparel and textiles in low-income countries — is important for job creation and for overall economic development. Such sectors produce internationally tradable goods, necessary to generate the foreign exchange all countries need. This is particularly critical in Africa, where such sectors are largely absent and there is instead dependence on revenues from exported commodities and minerals. However, it is also the case that outsourced jobs in labour-intensive industries, such as apparel and textiles, are not necessarily decent jobs, even for factory workers but particularly for industrial outworkers.

20. Lack of business investment is a deep-seated problem due to many factors in the economic and political environment. However, some of the problems lie at the urban level. In many cities it is difficult to assemble the parcels of land required for formal business investment. Meanwhile, the sites of informal businesses, whether in slum settlements or in public spaces, are overlooked and/or undermined in local economic development. Firm productivity is low, partly because of the infrastructure problems outlined above and the high cost of capital. Together, these make for an urban environment in which firms can operate to supply local markets, but are not likely to be competitive on global markets. The consequences are that a significant source of employment is missing from many cities.

Human capital and skills

21. The fourth investment challenge is that of building a healthy labour force with the knowledge and skills to contribute to an innovative and competitive urban economy. Cities with more knowledge-intensive labour are able to outperform peers in the global creative economy, adding value, increasing productivity and therefore attracting investment and employment. This is particularly true in the top echelon of cities where a virtuous circle of increased investment stimulates growth in employment and in-migration. A tolerant and diverse cosmopolitan environment can

[15] Sife A.S., Kiondo E., Lyimo-Macha J. Contribution of Mobile Phones to Rural Livelihoods and Poverty Reduction Morogoro Region, Tanzania, Electronic Journal of Information Systems in Developing Countries, V 42, 2010, and Rashid A.T., Elder L., Mobile Phones and Development: An Analysis of IDRC-Supported Projects, Electronic Journal of Information Systems in Developing Countries, V. 36, 2009.

strengthen a city's attractiveness to knowledge workers and entrepreneurs.[16] Highly successful urban economies have evolved synergistically with excellent universities, some of which have been the source of hundreds of technology start-ups that have transformed the urban and regional economy.[17] This is not entirely limited to the developed world, as a city like Bangalore, India, is currently one of the fastest-growing technology hubs in the world.[18]

22. It is generally the case that skill levels in urban areas exceed those elsewhere in the country. Nevertheless, a high proportion of the labour force is lacking basic skills. Business skills are also weak, and have been identified as a challenge.[19] The lack of adequate business skills is due to the lack or poor quality of educational facilities and training schemes and to the lack of on-the-job learning opportunities. There are many intrinsic reasons to strengthen educational capacity globally. But certainly one of the most important is that the ability to compete in the urban and therefore the global economy is essentially a product of human ingenuity and capacity, and therefore dependent on the knowledge and skills of a city's workforce.

C. Governance challenge

23. Urban economic development requires a far-sighted and capable local authority. Cities function only if there is provision of public goods and services for all citizens, and if there is an institutional and regulatory framework which can harness market forces for economic opportunities and well-being for all. In many cities, local government has not been able to meet these goals. This is partly because of institutional structures and the political tensions that they create, partly because of lack of resources, and partly because of failure to engage and collaborate with the full range of urban stakeholders.

24. The challenge of urban governance has been addressed in more detail by Policy Unit 4. In many cities, local government does not have the mandate or resources to address significant urban challenges. The process of devolution, agreed to at Habitat II, has stalled in many jurisdictions. Depending on the city, devolution has progressed or regressed over the course of the past 20 years. Local governments often have limited autonomy, and authority of local governments is evidenced by hiring and disciplining mechanisms for local government personnel.[20] Globally, local governments remain dependent on central government transfers to finance operating and capital costs. The result is that responsibility for facilitating a

[16] http://martinprosperity.org/insight-creative-and-diverse-ranking-global-cities/.

[17] Florida R., Gates G. Knudsen B., Stolarick K., The University and the Creative Economy, December 2006, http://creativeclass.typepad.com/thecreativityexchange/files/university_and_the_creative_economy.pdf; The Innovative and Entrepreneurial University: Higher Education, Innovation and Entrepreneurship in Focus, U.S. Department of Commerce, October 2013, https://www.eda.gov/pdf/The_Innovative_and_Entrepreneurial_University_Report.pdf; Dasher R., "The Role of Universities in Startup Ecosystem Development: What are the Real Lessons from Stanford University in Silicon Valley?" Manila, 2015, http://asia.stanford.edu/us-atmc/wordpress/wp-content/uploads/2014/06/150707-Dasher-SlshotMNL.pdf.

[18] Compass, The Global Startup Ecosystem Ranking 2015.

[19] http://siteresources.worldbank.org/SPLP/Resources/461653-1253133947335/6440424-1271427186123/6976445-1271432453795/Skills_for_the_Informal_Sector.pdf.

[20] http://www.uclg.org/sites/default/files/_28fr29_uclgpolicypaperonlocalfinanceeng2.pdf; Tidemand P., J. Msami, *The Impact of Local Government Reforms in Tanzania 1996-2008*, Research on Poverty Alleviation.

developmental process and the resources to finance that process are not always available to local government. Further, skilled workers rarely regard local government as an attractive employer, with the result that it often lacks the staff to negotiate with the private sector on an equal basis.

Institutional structure and political economy

25. In many cities institutional structures are confused and competing, meaning that the authorizing environment of any particular part of government is circumscribed and of limited effectiveness. Responsibilities are likely to be divided between different central government ministries (finance, business, housing, lands, transport) with varying degrees of autonomy given to urban government. In many jurisdictions, local governments do not have the mandate to support economic development. Within a metropolitan region it is frequently the case that boundaries are outdated so that cities spread across several jurisdictions. This division of authority is further complicated by politics as sectional interests play out in different ways at different levels of government.

26. It is also the case that local governments, like national Governments, often collude with the wealthy and powerful. This makes it particularly difficult to ensure that local institutions, policies and practices are fair and equitable.

27. These are difficult issues to address, but the first solution is to establish clear lines of authority and accountability, with wide-enough scope to enable leaders to see the city as a whole. The appropriate level at which to do this will vary with context and city size, and in many cases will be the city rather than the national Government. The second solution is to have the local government establish participatory policymaking and rule-setting processes at the city level (see annex II, box 4, for an example of participatory decision-making in a mid-size city in Turkey).

Finance and resources

28. Cities have demanding financial needs, both for operating expenditures and, particularly if they are fast growing, for capital expenditure. Estimates of infrastructure spending needs alone run at 10-15 per cent of urban gross value added in many cities.[21]

29. Responsibilities for provision of different services (health, education, policing, sanitation, transport) vary widely between levels of government, but in all cases need to be adequately resourced. Where these responsibilities lie with city government they must have a commensurate flow of funds. Similarly, urban capital spending needs to be financed, either by lines of funding from central Government or by allowing municipal borrowing.

30. At present there is a large imbalance between the fiscal capacity of local governments and their spending responsibilities. For example, some urban authorities in Canada are largely autonomous, generating over 90 per cent of total revenues for operating and capital expenditures from local sources.[22] But the role

[21] Foster, V. and C. Briceno-Garmendia (2010) "*Africa's infrastructure; a time for transformation*", World Bank, Washington DC.

[22] See, for example, http://www.kitchener.ca/en/insidecityhall/BudgetsAndFinanceReports.asp.

and autonomy of local governments in fiscal affairs, especially in developing countries in South Asia and Africa, are very limited.[23]

31. The challenges are both to ensure that the total flow of funds to cities is adequate, and to rectify imbalances between responsibilities and fiscal capacity. If urban government is not able to raise local revenues to pay for local services for which it is responsible, or the competencies to manage those resources effectively, then the incentive to invest in or partner with that government is limited.

III. Prioritizing policy options: transformative actions for the New Urban Agenda

32. The focus of this report is the challenge of assisting cities to generate more jobs and productive work opportunities; to enhance existing jobs and livelihoods; and to ensure that all citizens (including low-income, low-skill, informal workers and in-migrants) have access to income-earning opportunities. These are to be delivered through the strengthening of urban economies. Prioritization of policy options is based on the principles and conditions for economic development articulated in section I.

33. The first principle is that the potential of cities is released if people are enabled to invest — in developing skills, livelihoods, businesses and their homes (which often double as workplaces or storage spaces) — and to benefit from such investments. The advantage of urban areas is the potential for a high degree of connectivity and consequent intense economic and social interaction between a larger and diverse range of people, skills, and market opportunities, all of which can contribute to the positive externalities (including agglomeration economies) that many cities enjoy. Moreover, networks of cities enable them to exploit comparative advantage and specialization at regional and global scales, thus stimulating innovation, raising productivity, and driving economic growth and human development more broadly. The principal role of public policy is to support this potential.[24] This involves creating an institutional and regulatory environment that supports private enterprises, both formal and informal, while seeking to compensate for market failures and providing safeguards and social safety nets. It requires extensive investment in infrastructure and public goods and services, a fair allocation of these public goods, and an appropriate regulatory environment.

34. All cities are different, and policy formulation demands recognition of local circumstances and careful diagnosis of the obstacles to investment and job creation in individual cities. In making these diagnoses it is important to see the city as a whole. Different sectors, formal and informal, play a role. Job creation and productivity are hard to achieve if the residential and commercial capital stock is misplaced or of poor quality. Economic growth can be sustained only in a broader context of inclusive human development and the fair allocation of public goods and services.

35. Policymakers must show due concern for equity and social justice; sustainability, including environmental responsibility and resilience; social and

[23] UCLG 2010, http://www.cities-localgovernments.org/gold/gold_report.asp.

[24] Zhang, L.-Y. (2015), Managing the City Economies: Challenges and Strategies in Developing Countries. London: Routledge.

economic inclusion, including empowerment of disadvantaged groups; and democratic accountability. All of these will, in turn, contribute to reaching the Sustainable Development Goals by 2030. Structures built today will be long-lasting, shaping the economic and social performance of cities, as well as their energy use and environmental sustainability, for many decades to come.

36. Guided by these criteria and the challenges outlined in the preceding section, policy priorities fall into six broad classes: land use; business support initiatives; infrastructure and service provision; the informal economy; urban finance; and urban governance and government capacity (in fiscal and human terms).

A. Land use: building a compact city

37. The structure of the city and its built form can profoundly affect its ability to support economic development. A compact city that is predominantly a medium-to-high-density built form with mixed land uses is able to support a high degree of connectivity — movement of workers, goods, services and ideas — in a manner that is cost-effective and sustainable (see annex II, box 5, on compact cities). This, in turn, contributes to a higher standard of living and the urban vitality necessary to support a dynamic economy. Four sorts of policy measures are required to achieve this.

38. The first is appropriate **land-use regulation**. Regulations are necessary to maintain building standards, guarantee minimum standards, and control congestion. However, these standards — on plot size, floor area ratios, and building standards, for example — must be appropriate for the urban context and the level of national development. In many cases they are not, with standards often set too high and consequently ignored. Subject to environmental and congestion concerns, regulation should accommodate high-density development and mixed land uses. Land-use regulation must be adjusted to accommodate the dramatic growth of informal settlements in most cities in the developing world.

39. The second element is to ensure **clarity of land tenure**, so that investment is not blocked by uncertainty surrounding ownership or other rights of land use. Reform is highly complex as there may be a combination of traditional and market-oriented systems already in place, as there are likely to be multiple claimants to a particular piece of land, and as powerful entrenched interests seek to capture land value appreciation. Efficient and equitable use of land also requires that complementary markets — such as mortgage finance and the construction sector — are operating effectively.

40. Finally, the city authority needs a strategic view and a policy towards land-use planning. A vision for the long-term development of the city, set in the context of national economic development strategies, is necessary in order to guide private investment decisions as well as public actions. There is risk that "coordination failure" will deter investment unless investors have clear expectations about likely development of different areas of the city.

41. This vision should be articulated in: (a) medium- and long-term city development strategies designed to coordinate land use, in line with development of infrastructure and possible patterns of sectoral growth; (b) infrastructure investments that lead, rather than lag, private development; and (c) active review of

building and land-use regulation with a view to encouraging an appropriate mix of density development and mixed land use, to allow all sizes and types of enterprises to flourish, and the transition towards a low-carbon economy and society.

42. Steps have to be taken to make such strategies and plans credible, including regular adjustments over time. The role of urban strategies and plans should be supportive, rather than directive, of private investment. They should recognize the risks attached to being overly rigid, with built-in flexibility.

B. Infrastructure and service provision

43. A city is a large complex of integrated systems. The provision of infrastructure within the city is necessary to its efficient and equitable functioning. Power is required to increase productivity. Transport infrastructure in particular is essential to achieving the benefits of connectivity and avoiding the financial, environmental and public health costs of congestion. The demands of urban density and climate change mitigation place a priority on public transport (and walking/non-motorized transport such as cycling). Particular attention needs to be given to the transport needs of the working poor, as the benefits of transport to informal settlements can be dramatic. Business also needs connectivity to the rest of the region, nation and global markets, through transport networks, ports, airports and telecommunications.

44. The economic development policy agenda requires:

(a) Putting in place process for formulation of medium- and long-term infrastructure development plans, based on rigorous assessment of needs and appraisal of the cost-effectiveness of meeting these needs;

(b) Effective and transparent policy for implementing infrastructure projects and procuring infrastructure investment;

(c) Funding from both public and private sources. To close the infrastructural gap requires substantial increase in infrastructure investment, in which the contribution of private capital will be crucial.[25]

C. Business support

45. It is essential for urban governments to actively and purposefully support the economic development process. By engaging as a stakeholder in the local economy, local government acknowledges the symbiotic relationship between its economy, the success of its business community, the standard of living of its citizens and the services it provides to the community. By expressing leadership in economic development it establishes the possibility of adjusting local policies and public administration in a way that supports the development process. In many jurisdictions, the capacity of local government is limited. But even in these cities, the process of engaging as a champion for development, establishes, at the very least, an agenda for advocacy that otherwise would not exist. In cities with greater capacity, the impact of leadership in economic development can be the almost immediate adjustment of municipal services to support business. Over the longer

[25] UNCTAD 2014, World Investment Report 2014: Investing in the Sustainable Development Goals: An Action Plan.

term, these efforts combine with those of other stakeholders to transform the urban economy.[26]

46. At the most basic level, business development is a product of conversations with businesses of all sizes, investors of all types, including foreign direct investors, established local firms and aspiring entrepreneurs, to better understand their needs and aspirations. This applies equally to formal and informal businesses, as both struggle with a myriad of challenges that range from arbitrary regulation, communications within the industry, logistics, human resources, business management, and reaching local and external markets, among many others. It is important for local government officials to understand the challenges of the local business community and to address significant issues as they arise.

47. This conversation can also help position the urban government to collaborate more effectively with national-level inward investment agencies. A city that has developed an intrinsic competitive position, whether it is the skills of its labour market, the strength of its dominant clusters, good infrastructure or natural endowments, can attract significant foreign investment.

48. Business development can also include proactive programmes including support for industry associations, business service centres to support informal, small and medium-sized enterprises with training programmes, mentorship, peer-to-peer programmes, the provision of incubation and co-working space. Services can be tailored to the differing needs of different types of business, including the small and medium-sized enterprises and informal enterprises. Cluster development activities, in which stakeholders in a particular industry identify strategies that can advance their industry as a whole can be very effective (see annex II, box 6, on local economic development in Morogoro, United Republic of Tanzania). Cluster development activities should be targeted at both clusters of formal businesses and clusters of informal businesses in informal settlements. Business development services can help to address gaps in business financing by attracting partnerships with financial institutions. Business development services vary in complexity, and some require a high level of expertise to operate successfully, and can be expensive failures in the absence of such expertise. Prior consultation with potential beneficiaries and other stakeholders should improve the outcome. Capacity-building in this area needs to receive high priority.

49. In the developing world, it is critical to provide support to informal workers and their livelihood activities, as they often comprise the majority of workers and enterprises in the urban economy. The provision of cost-effective business support can help improve productivity and address significant business challenges. It also sets the stage to encourage them to incorporate their businesses as their success grows.

50. In an increasingly knowledge-intensive economy, the skills available in the labour force are a primary determinant of business investment and employment growth. The targeted development of a skilled labour force can be a significant competitive advantage of an urban economy. Economic development strategy can

[26] http://cor.europa.eu/en/documentation/studies/Documents/lra-innovation-economic-growth.pdf. Building Community Prosperity Through Local Economic Development: An Introduction to LED Principles and Practices, George Edward Treller, Federation of Canadian Municipalities/ International Technical Assistance Project, 2014.

identify skills requirements and help support efforts of educational institutions to address gaps. Educational institutions that are positioned to respond to the requirements of the urban economy can play a critical role in this process.[27]

D. Support for the informal economy

51. As noted earlier, the majority of the workforce in most developing countries is engaged in the informal workforce. Among the informal self-employed there are some who deal in illegal goods and services and some who evade or avoid registration and taxation. However, most are working poor trying to earn an honest living. They would welcome the benefits that come with regulation and taxation. However, for them, existing regulations are often irrelevant, inappropriate or punitive, and many taxes or tax thresholds do not apply. Cities need to adopt more appropriate and inclusive policies to support the working poor in the informal economy.

52. At the heart of the policy debates on the informal economy is the question of whether and how to formalize the informal economy. Historically, there have been two dominant notions of what formalization of the informal economy means or should mean. To some, it has meant shifting informal workers to formal wage jobs, but this requires creating sufficient formal wage jobs. To others, it has meant registering and taxing informal enterprises. But in recent years there has been increased recognition that the informal economy is expanding, not decreasing; that it is composed of both self-employed and wage-earning, most of whom are working poor persons trying to earn an honest living and many of whom pay taxes and fees of various kinds; and that government regulations and policies impact them directly, often negatively. With this recognition has come a different approach to formalization: as a gradual process that should preserve and enhance informal livelihoods while extending legal and social protections as well as support services to the informal workforce, particularly the working poor.

53. Reflecting this new perspective and approach, Recommendation No. 204 on the gradual transition from the informal to the formal sector, adopted by the tripartite partners at the 2015 annual conference of the International Labour Organization, recognizes and makes provisions for the following:

(a) Most informal workers are from poor households trying to earn a living against great odds and therefore need protection and promotion in return for regulation and taxation;

(b) Most informal economic units are single-person or family operations run by own-account workers who do not hire others;

(c) Informal livelihoods should not be destroyed in the process of formalization;

(d) Regulated use of public space is essential to livelihoods of informal workers, especially in cities;

[27] Developing National Systems of Innovation: University-Industry Interactions in the Global South, Eduardo Albuquerque, Wilson Suzigan, Glenda Kruss and Keun Lee, Edward Elgar Publishing/IDRC, 2015.

(e) Regulated access to natural resources is also essential to the livelihoods of informal workers.

54. In the context of cities, this new approach to formalization requires a reappraisal of urban policies, plans and practices, which often work against, not for, informal workers and their livelihoods. The working poor in the informal economy tend to work in either public spaces such as streets, open areas, construction sites or in private homes, often in slum and squatter settlements. To make their livelihoods productive, the working poor need secure workplaces with basic infrastructure services. This requires regulated access to public space and de facto tenure and upgrading of slum and squatter settlements. City by-laws relating to street trade are often quite outdated and punitive. Rather than updating the by-laws, city governments tend to relocate street vendors from central business districts to the periphery of cities, only to have them return. City regulations relating to solid waste management do not recognize or integrate informal waste pickers who have cleaned cities for decades, know best how to recover recyclables from waste, and thereby help reduce both carbon emissions and the costs (to the city) of waste disposal.

55. To secure and enhance their livelihoods, the urban working poor need an enabling business environment as well as supportive services. They need the right to be free from harassment by the police and other local authorities, from confiscations of their goods and equipment, and from evictions or demolitions of their homes and workplaces. They need secure tenure of their homes and workplaces, access to basic infrastructure at their workplaces and to public transport between their homes and workplaces, suppliers and buyers. This will require that cities recognize that informal settlements and public space — the urban commons — are sites of informal activities; and that evicting the working poor from informal settlements and public spaces not only undermines their livelihoods but also, in so doing, undermines the urban economy. Considered another way, this will require that cities integrate informal workers and their livelihoods into local economic development plans.

56. In terms of urban governance, the working poor in the informal economy need the right to organization and representation. They need to be able to exercise collective voice, which comes through being organized into democratic member-based organizations; and they need to exercise representative voice, which comes through such organizations being able to participate in relevant policymaking, rule-setting, collective bargaining, or negotiating processes. In order to do this, they need capacity-building support to enable their leadership to effectively engage with policymakers, as well as a solid evidence base with which to make their case (see annex II, box 7, on platforms for information sharing, dialogue and negotiating between informal workers and city authorities).

E. Urban finance

57. A predictable, secure and substantial source of revenue is necessary for city government to support services and infrastructure at the level required for urban economic development.

58. Funds may come from central government or from local sources. Local sources play an important role as they connect citizens to local government, enabling them to hold local governments accountable for budgetary allocation and

their outcomes.[28] This can avoid a governance trap: with heavy dependency on central mandates and allocation, citizens become disinterested in what local governments do, which in turn weakens the incentives of local governments to do well in meeting public needs and the incentives of citizens to pay local taxes and fees and to monitor the performance of local governments.

59. Local autonomy needs to be balanced against the risk of tax competition between cities bidding local tax rates down to suboptimally low levels. This may involve central Government setting minimum local tax rates.

60. There is a strong case for implementing taxation of land values; ethically, since urban land derives its value from its location in the city and from public investments in the city as a whole, rather than from the actions of past or present owners of the particular piece of land; economically, since a land value tax is less likely to be damaging to productive activity than corporate taxes or business licensing fees; and administratively, since it can be based on a land cadastre (necessary also as part of ensuring clarity of ownership and tenancy rights). But the administrative challenge of building and maintaining a land cadastre is acknowledged.[29]

61. Where large-scale infrastructure development is required, qualified local governments should be allowed to raise additional resources. Three particular methods have shown great potential, including municipal borrowing (either through bank loans or municipal bonds), public-private partnerships, and land-based commercial activities.[30] Tripartite partnerships — between local government, the private sector, and communities of the urban poor — are another approach to explore. They have been effective in slum-upgrading schemes, with the urban poor contributing their labour. To enable local governments to make better use of these financial instruments, however, it is necessary to introduce auditing mechanisms and to strengthen the institutional capacity of local governments (see annex II, box 8, on an alternative approach to raising revenue in Sao Paolo, Brazil).

F. Urban governance

62. Good governance is an essential condition for development. It provides services necessary for private sector investment such as water, sanitation, transportation and transit infrastructure, local markets and, in some jurisdictions, health and education services. It also sets, in much of the world, local tax and utility rates, as well as land-use planning regulations. It represents the community in the development process and can either facilitate or frustrate that process. Much of the infrastructure managed by local government is capital-intensive and takes years or decades to establish and has a life cycle of many decades. As a result, stable, effective, accountable and transparent local governance, including policy, planning, procurement, investment and taxation, can be a significant benefit to economic development stakeholders improving the climate for investment and risk-taking by private sector partners. It can also be an instrument for redressing deep-seated

[28] Devarajan et al. (2007) *Protecting the Vulnerable: the Tradeoff between Risk Reduction and Public Insurance*.

[29] http://www.lincolninst.edu/.

[30] Farvacque-Vitkovic and Kopanyi (2014) Municipal Finances: A Handbook for Local Governments. World Bank.

socioeconomic imbalances, improving conditions among the working poor and generating employment, as the case of Medellin shows (see annex II, box 9).

63. A number of key principles are important to articulate as supporting effective local governance. Government should be accountable to the population of the city and voice should be given to different stakeholders (including the private sector, universities, the trade unions, the informal sector, etc.). There should be clarity of authority, with the division of responsibilities between levels of government made clear and each layer of government empowered to meet its responsibilities. The spatial span of control should be appropriate, with citywide policies and public goods managed by a citywide authority and local services provided at a more decentralized level. Capacity and expertise needs to be developed at all levels, including economic development functions in local government; strengthening of the monitoring and evaluation mechanisms of government programmes; and enhancing transparency through measures such as e-government. Economic development is a cross-cutting objective of local government and needs collaborative support from several functional areas discussed above. It is important for the structure of local government to reflect this challenge and align functions in support of economic development strategy as a top-level municipal priority. Ability to work with the private sector, education institutions and community development partners in formulating local economic development strategies requires a pro-business and pro-partnership culture.

64. Although the national policy context also has an impact, cities are where urban informal workers pursue their livelihoods and live their lives. Their livelihoods are bound up intimately with the processes, policies and procedures enacted by the city as it pursues its various — and often disconnected — agendas. Urban informal workers are vulnerable to municipal policies that discriminate against them and allow for harassment by local officials. To facilitate improved productivity and standards of living among informal workers, local regulatory framework and enforcement officials need to recognize the contribution they make to the local economy.

IV. Key actors for action: enabling institutions

65. Although this policy paper focuses on urban economies, we recognize that these are complex and require actions of different actors at the global, regional and local levels. In this section, we outline the roles and functions of various key actors: governments, global multinational and international organizations, civil society, and the private and informal sectors. Our choice of actors was informed by their sphere of influence — from setting global norms and standards to influencing where street traders can or cannot trade — and the kind of influence they wield in the economy. Any urban economic policy framework has to take into account all economic actors. We argue that a good economic framework balances the needs of all actors in ways that strengthen economies, enhance livelihoods and create jobs.

A. Key actors and institutions

66. Overall, national governments are critical in establishing the legislative and policy framework for economic development. Their role in managing the macroeconomic, fiscal environment, the regulatory framework, establishing

intergovernmental and decentralization policies, as well as setting the policy framework for sectors, firms and industry make them both an important and powerful actor in urban economies. Well-designed and effectively implemented macroeconomic reforms can drastically alter the course and speed of urban economic development (see annex II, box 2). National Governments have a broad and strategic perspective at a distance from the minutiae of local concerns and opportunities. Their interest can be in the whole, rather than the particular.

67. Local governments are the closest representative and accountable level of government. Unlike national Governments, their purview is local and their concern is to create a local environment in which enterprises can flourish. They are also responsible for regulating and licensing development and land use:

- Urban governments are responsible for physical infrastructure at the community level, which is necessary for business and labour markets to function
- Local governments are also the most appropriate agents to convene the stakeholders in the local economy: chambers of commerce, small and medium-sized enterprises, educational institutions, trade unions and industry-related organizations
- It is the environment in which people meet face-to-face to create partnerships, find synergies for mutual support, and devise strategies for their community
- Local governments make strategic decisions about land use and urban form, transportation, water and sanitation services, etc.

68. These decisions have a direct effect on the competitiveness of the local business environment. If a municipality is actively involved in economic development strategy with its stakeholders, it is better able to determine the implications of alternatives on the local economy. It is also able to shape the form of the city to reinforce economic development with infrastructure investment strategy and land-use regulation. For example, investments in higher-order transit services in advance of development will support a more compact, sustainable city better able to efficiently move its labour force and compete in the global economy. However, large infrastructure development projects, including transport systems, can destroy the sites of informal livelihoods and do not necessarily serve the interests of informal workers and their livelihoods. To operate effectively, local governments require clear legislated mandates with defined roles, budgetary powers and capacity. To achieve effective decentralization of responsibility for economic development, upper-level governments must establish legal frameworks that provide local government with the clear mandate and resources to carry out their roles. And local governments must set up processes for involving all stakeholders in local policymaking and rule-setting processes.

69. No government has the capacity to achieve economic development objectives without the engagement of the private sector and institutional partners. Private sector partners harness creativity and innovation, capital and labour to create wealth, distributing it in the process. The construction of a shared vision, provision of infrastructure and an educated workforce can lead to job-creating investment decisions by the private sector. Without the mobilization of private capital and innovation, the potential impact of strategy is limited.

- The real estate sector must also build the city, and will respond to a well-articulated vision for the built form, creating employment and allowing open space for livelihoods.
- The private sector will invest where it can see potential returns on investment and a reasonable regulatory environment. As a corollary, private sector activities governed by ethical trade, labour and environmental sustainability principles and regulations create decent jobs and equitable economic development.

70. The informal economy represents a significant share of the private sector in many countries, often larger than the corporate private sector and, as such, poses both a significant opportunity and challenge for economic development stakeholders. Informal operators and workers often struggle to support their families, living and working in disadvantaged circumstances. However, when organized and supported over time, they have the potential to increase productivity and dramatically improve their standard of living. While some informal workers are joining the ranks of formal trade unions, more informal workers are organizing into their own trade unions, cooperatives and associations. These organizations of informal workers are also key stakeholders. Supporting and taking into account the informal workforce and their livelihoods in urban economic development is critical because they are important producers of goods and services and are becoming an important political voice in both global and local contexts.

71. Trade unions have played a significant role in the improvement of working conditions and compensation in many industries in many countries. But their influence is limited in the developing world, where half or more of the workforce is informal. Nevertheless, they represent an important stakeholder in economic development and can make a contribution to strategy development.

72. Education and training institutions: economies rely on the availability of labour, both skilled and unskilled. But the ability to increase productivity through innovation and technology requires skilled labour. Post-secondary education institutions generate the talent and research to support continuous innovation processes in mature and new firms. Research universities focused on supporting the entrepreneurial aspirations of their students can support the development of a highly innovative urban economy.[31] However, young people cannot take advantage of opportunities in higher education without basic primary and secondary schooling.

- Educational capacity should be a cornerstone of urban economic development strategy.
- Education institutions should see themselves as contributing and benefiting stakeholders in the local economic development process.

73. Non-governmental organizations (NGOs) are present across both the developing and developed world. They often have a particular expertise to contribute to economic development strategy and can be a source of investment capital and innovation in areas such as urban employment, poverty, environment and human rights.

[31] University of Waterloo Economic Impact Study, 2013, https://uwaterloo.ca/about/sites/ca.about/files/uploads/files/c003711_economic_impact_report_lr_v2.0_final-s.pdf.

- Challenges include a lack of coordination or integration into local economic development strategy and lost opportunity to leverage assets and investment or support strategy implementation.

- Recommendation: NGOs should support local strategy and efforts in local economic development.

74. The role of international organizations is much greater in the developing world than in the global North, where their interest is primarily of a monitoring and regulatory nature (i.e. trade agreements, climate change). In the global South, international organizations play a major role in national policy and finance, economic development programming and project investment decisions (e.g. Millennium Development Goals and Sustainable Development Goals, Habitat III, International Labour Organization standards).

- International processes that attempt to formulate consensus on global challenges can affect local economies through their success or failure, or the substance of international commitments.

- Localized impacts of international programmes can disrupt or support economic development efforts, investment, employment, incomes and quality of life.

- Recommendation: consideration should be given to the potential local impact of international processes and the need to help implement international norms but also mitigate potentially adverse outcomes.

75. Large multinational firms are the dominant enterprises in many jurisdictions, particularly resource-rich economies. They can have a disproportionate effect on a local economy by providing the primary source of formal employment, infrastructure, and income in smaller cities and rural communities. Governments that develop the competencies to manage business relations with large multinational corporations are better positioned to mitigate their impact on the communities and capitalize on the benefits.

- Large corporations have a responsibility to maximize the developmental benefits of their activities on the local economy.

- Supporting local supply chain development on fair terms can help strengthen the firm, the units and workers linked to the firm, and the local economy.

- By providing a global perspective and advanced market intelligence, large corporations can support local economic strategy to capture additional opportunities for the urban economy.

B. Urban economic actors

76. Table 5 (in annex I) provides a map of key urban economic actors and institutions and the roles they play in different segments of the economic process. We identified six key areas — the legislative framework, business environment, trade logistics, infrastructure and services, access to finance and human capital — which comprise the broad economic environment within which cities operate. The table shows the importance of national and local governments in all segments of the economic process. Multilateral and bilateral institutions also play an important role

in urban economies because they set trade and policy agreements that regulate international trade. Free trade agreements, for example, are important because they can give cities a competitive edge over suppliers. International actors are also important providers of skills and services across the economy, from the business environment to human capital development. Although the private sector is not a key player in setting the economic legislative framework, it maintains a powerful voice because of its role in all other aspects of the economy. Although weak politically, the informal economy plays an important role in providing valuable goods and services to the urban economy and community.

C. Enabling institutional processes

77. A key task or challenge of local governments is to balance the competing interests of these different actors and institutions and facilitate a sustained participatory development process. In real everyday urban life, different actors compete for public space, public services, public contracts and other public resources. In reality, some actors and institutions are more powerful than others, and some local governments collude with dominant interest groups. These realities are reflected in the policy tensions or dilemmas faced by local government, including: whether to promote private interests versus the public good; incentivize versus regulate behaviour of different actors; cross-subsidize poor communities or pursue cost competitiveness; promote universal support programmes or selective targeted programmes; target areas in need or areas with potential. It is very important to recognize these policy tensions and who are the winners and losers of each policy decision.

78. It is very important, therefore, to promote a fair and inclusive system of urban governance. This requires engaging with all stakeholders and promoting inclusive policymaking and rule-setting process with representation from all relevant stakeholders. For the working poor to improve their livelihoods, organizations of the working poor need to be effectively engaged at all stages of the policy process: from identifying and calling for reforms to drafting specific laws, by-laws/regulations and policies, to monitoring the implementation of laws, by-laws/regulations and policies. However, the urban poor are often at a disadvantage in voicing their needs and demands and being heard by local government. In certain cities, including Accra, Bangkok and Lima, special platforms have been established for engagement and negotiations between organizations of the urban working poor and relevant local government authorities (see annex II, box 7). In other cities, there have been longer-term ongoing engagements between informal workers and the city, including between street vendors and the Durban municipality in South Africa and waste pickers and the Bogota municipality in Colombia (see annex II, boxes 10 and 11).

V. Policy design, implementation and monitoring

79. This policy paper has presented a comprehensive and complex agenda for employment-led urban economic development, including a vision statement and a set of normative principles (sect. I); a range of urban economic development challenges (sect. II); a framework for prioritizing which challenges to address and

how (sect. III); and the key actors and institutional processes that should be involved (sect. IV).

80. The policy objectives — and the policy challenges — are quite clear. This section lays out a policy design response to the challenges and priorities which cities and their stakeholders must grapple with to support urban economic development. The scale of the challenge is daunting, but numerous examples illustrate the potential for success (see boxes in annex II). The extreme diversity of cities, their economies and the challenges they face defies a strongly prescriptive solution. Rather, this paper suggests that a clear mandate for urban economic development must be given to urban stakeholders, especially democratically accountable local government. The following sections outline the process requirements for effective strategy development, implementation and monitoring.

A. Policy design process

81. Cities, to succeed in urban economic development, must address two sets of conditions. The first is underlying conditions which support the city's physical capacity for economic development. These include the infrastructure necessary for economic development, the means to fund that infrastructure, and the spatial and land-use planning capacity to determine its structure and development sequence. The aspiration must be a compact, transit-supported city that is well serviced with reliable power, water, sanitation and telecommunications, efficient and transparent regulatory environments and market institutions, including land markets that function effectively for all. These underlying conditions are discussed at length in policy papers 5, 6 and 9 and therefore not elaborated further here, but their importance to urban economic development cannot be overstated.

82. The second are those underlying conditions enabling the development process. Economic development facilitation is the key enabling role for local government because it has the potential to galvanize support for sustainable economic development strategy. It requires government leadership from the mayor, the council and staff to engage their stakeholders (formal and informal businesses as well as civil society, including higher education institutions, trade unions and non-governmental organizations), in a conversation to shape a collective vision for the future of the city and its economy. This conversation provides invaluable intelligence for strategy development. Augmented with good economic research, local planners and decision makers come to understand their tradable sectors in regional and international markets and determine specific actions that can improve their competitiveness (university research, technology, advanced skills, local networking — among firms, external connections) and capture new opportunities in the global economy. It can determine the specific business support services that are required and the local initiatives that can help position a community to more effectively compete for both local and external investment and employment.

83. As indicated earlier, we do not favour a one-size-fits-all approach to employment-led urban economic development. We also do not favour a technocratic top-down policy design and planning process. Policy solutions need to be customized to fit the economic, social and institutional specificities of individual cities; driven by consultations with all relevant stakeholders; and informed by knowledge of ground-level realities. What we recommend, then, is a policy design

process that involves: (a) intentional dialogue with key stakeholders to identify economic opportunities, including industries or subsectors with potential for growth and/or a concentration of the working poor, and to negotiate joint solutions to challenges, including dealing with competing interests; and (b) mapping of key industries or subsectors in the city to identify opportunities and constraints facing different sizes of enterprises — especially the medium-sized, small and informal enterprises — within each industry or subsector.

84. The intentional dialogue with key stakeholders for urban policymaking needs to include relevant stakeholders from each broad constituency: government, the corporate private sector, the informal economy, and civil society. The dialogues should be ongoing and should involve conversations to share information with a focus on economic opportunities and innovation; consultations to understand the different constraints and opportunities faced by different stakeholders; and negotiations to reach agreement about the appropriate policy solutions, including the allocation and use of public space, resources and services.

85. Another type of dialogue, to inform the others, should be to map key industries or subsectors to identify opportunities and bottlenecks (see annex II, box 12, on subsector mapping). The purpose of these intentional dialogues and the mapping of key industries or subsectors is to identify both opportunities and constraints to urban economic development; to develop understanding and consensus between different urban economic actors; and, in the process, to identify the most appropriate and acceptable policy solutions and actions.

B. Implementation framework

86. Urban economic development is primarily a social process in which stakeholders within the economy shape a shared understanding of the current situation and an attainable vision based on their priorities and garner the incremental human, financial, and physical capital to gradually increase productivity and enhance livelihoods. No doubt, economic development in some contexts has very technical and capital-intensive requirements. But the process of determining what those are and how to mobilize the necessary resources is not technical. Whether the actors are in a city at the pinnacle of the innovation economy or focused on improvements to the standard of living of workers in a large informal settlement, the process of determining the next steps in the evolution of the local economy and the mechanisms to implement the strategy is the product of conversation and collaborative leadership.

87. What can be said about the framework for local economic development that has potential broad application, given the extreme diversity in the typology and context for cities? Several key features emerge out of both the literature[32] and promising cases (see boxes in annex II).

[32] Competitive Cities for Jobs and Growth: What, Who, and How. 2015, World Bank Group, http://www.worldbank.org/en/topic/trade/publication/competitive-cities-a-local-solution-to-a-global-lack-of-growth-and-jobs.

Engage with urban economic development stakeholders to build strategy

88. Meaningful engagement of economic stakeholders — private sector, educational institutions, community-based organizations, think tanks and trade unions — assists the municipality in gathering intelligence, ideas and aspirations to inform strategy. But more importantly, stakeholder engagement helps to craft clear and consistent strategy that can mobilize partners and channel investment of their time and resources in support of community objectives. Economic development strategy is a product of conversation and collaboration among stakeholders. Urban economic development strategy should also help position the city to capture emerging opportunities as they arise, developing relationships with external collaborators and investors and encouraging firms to develop external markets.

Undertake research and analysis

89. A city exists within a particular historic, geographic, environmental and economic context. It is important to understand the city, its context and the development processes that have shaped it. Data analysis and external research can inform strategy that is both aspirational and credible. Recognizing, however, that information is always imperfect, dialogue with stakeholders engaged across the community and its economy can assist in filling gaps and confirming conclusions. Sector-mapping processes as discussed above can help stakeholders identify gaps and opportunities and prioritize potential actions.

Focus human, financial and physical resources on urban economic development strategy

90. Economic development is a cross-cutting activity requiring the engagement of the organization as a whole and alignment of both policy and organizational culture. Both organizational structure and culture must reflect the urgency with which the city considers economic development imperatives. An ambitious economic development strategy can be undermined by a contradictory, irrational or malicious regulatory environment. That is not to say that reasonable standards are not required. Judicious, consistent, fair, predictable and efficient application of policy and regulation to support environmental sustainability, health and safety, and other public policy objectives that reflect community expectations will support the implementation of sound economic development strategy. Building capacity in local government through development of a professional, capable public service can advance economic development. Establishing a formal economic development office within the municipal government reporting to the Chief Administrative Officer or Municipal Director can help organizational resources on urban economic development objectives.

Support and celebrate entrepreneurship in both the formal and informal economies

91. Entrepreneurs are the risk-takers and innovators that help shape the future economy. Yet by definition, chance of failure is high. Business founders often do not have the knowledge or skills to grow their businesses beyond its formative stages. Access to mentorship, advisory services, peer-to-peer groups and support networks can dramatically improve success rates and assist in their growth. Explicit

municipal support for entrepreneurs in both the formal and informal economies can strengthen a community and help create jobs.

Build support from upper-tier governments and international organizations

92. Upper-tier governments and international organizations have access to greater resources and networks that can support urban economic development. They are responsible for strategic regional infrastructure that is critical to connecting urban economies to network cities and markets. It is also important to engage these governments so that local strategy can inform national investment decisions.

Build human and social capital within the community

93. Economic development is contingent on many things, but it is first a product of human ingenuity and determination. The ability of the community to support the education and development of its citizens is the prerequisite for the development process. Economic development strategy must mobilize education, innovation and entrepreneurial capacity across the spectrum from elementary to advanced levels.

C. Indicators of successful implementation, monitoring and evaluation

94. Strategy implementation affects a broad range of social, economic and physical aspects of the city. Initially, it is a political and social process. Decisions around resource allocations and budgets are made through multiple stages over the course of considerable time. Teams are assembled and mobilized. Stakeholders are engaged. In this formative stage, little physical or statistical evidence is available to demonstrate that strategy implementation is under way. As projects move through the planning process, decisions are ultimately made to launch complex initiatives. In the case of large infrastructure projects, that planning stage can take between 5 and 10 years. In capital projects that characterize urban development, planning processes of 12 to 36 months are not uncommon. The construction of significant urban projects can be in the range of 24 to 48 months. As a result, the physical and statistical evidence of strategy implementation can lag five or more years.

95. Over time it is important to monitor three types of indicators: procedural, structural and socioeconomic. Procedural indicators include events, such as the formulation and publication of an urban economic development strategy or spatial development plan, reorganization of municipal divisions to support economic development, the publication of legislation or by-laws, or the launch of a programme to support a specific aspect of strategy. Structural indicators measure gradual change among industries and occupations. Socioeconomic outcomes are those measuring the well-being of citizens as a whole. Specific indicators can include education, personal income, housing status, and measures of household stability as well as qualitative indicators such as perspectives on personal and community well-being, and attitudes towards the future.[33]

[33] http://www.worldbank.org/en/news/feature/2013/02/14/monitoring-and-evaluation-for-better-development-results.

VI. Conclusion

96. In conclusion, Policy Unit 7 would like to advocate strongly for four key recommendations:

(a) First, urban economic development should be seen as an intrinsic responsibility of national and local governments. As we argue in the report, each level of government plays a different yet complementary role in achieving sustained and sustainable urban growth. It is important, therefore, for national Governments and international agencies to collaborate with and support local governments in their efforts to strengthen the local economy;

(b) Second, we would like to emphasize the need to recognize and support the working poor in the informal economy as legitimate actors in the economic development process;

(c) Third, it is critical to help cities address the underlying conditions for urban economic development. These include the infrastructure necessary for economic development, the means to fund that infrastructure, and the spatial and land-use planning capacity to determine its structure and development sequence. The aspiration must be a compact, transit-supported city that is well serviced with reliable power, water, sanitation and telecommunications, efficient and transparent regulatory environments and market institutions, including land markets that function effectively for all. We would like to acknowledge the importance of achieving a compact, transit-supportive urban form in order to support economic development, sustainability and social cohesion. Cities that are not able to deliver the underlying conditions to support economic development will struggle to succeed;

(d) Fourth, the global community must also support the enabling conditions for employment-led urban economic development. We would highlight the need for support for the capacity of local governments to implement appropriate land value-based tax regimes and other financing strategies in order to finance local infrastructure and services in support of economic development;

(e) Finally, in terms of the way forward, we would like to underscore the policy design and implementation process outlined in section V as follows:

(i) Engage with key urban economic development stakeholders — government, corporate private sector, the informal economy, educational institutions and civil society — in information-sharing, consultation and negotiating platforms, in order to craft economic development strategy that can mobilize stakeholder action;

(ii) Undertake research and analysis to inform the policy design process, including mapping of subsectors and industries to identify opportunities and bottlenecks;

(iii) Support and celebrate entrepreneurship in both the formal and informal economy;

(iv) Focus human, financial and physical resources on urban economic development strategy;

(v) Build support among upper-tier governments and international organizations;

(vi) Build human and social capital within the community.

Annex I

Tables

Table 1
Unemployment rates (2007-2018)

	Rate (percentage)											
Region	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
World	5.5	5.6	6.2	6.1	6.0	6.0	6.0	6.1	6.1	6.1	6.1	6.0
Developed economies and the European Union	5.8	6.1	8.4	8.8	8.4	8.6	8.6	8.6	8.4	8.2	8.0	7.9
Central and South-Eastern Europe (non-European Union) and Commonwealth of Independent States	8.2	8.1	9.9	9.2	8.5	8.0	8.2	8.3	8.2	8.2	8.2	8.1
East Asia	3.8	4.3	4.4	4.2	4.3	4.4	4.5	4.7	4.8	4.9	4.9	5.0
South-East Asia and the Pacific	5.5	5.2	5.1	4.7	4.4	4.1	4.2	4.3	4.3	4.3	4.3	4.4
South Asia	4.1	4.1	4.2	3.8	3.8	3.9	4.0	4.0	4.1	4.1	4.1	4.1
Latin America and the Caribbean	6.9	6.5	7.5	7.3	6.7	6.6	6.5	6.5	6.5	6.5	6.4	6.4
Middle East	10.2	10.1	10.3	11.1	10.8	10.9	10.9	11	10.9	10.8	10.8	10.7
North Africa	11.1	10.5	10.6	10.4	11.8	12.1	12.2	12.2	12.1	12.1	12.1	12.0
Sub-Saharan Africa	7.5	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.5

Note: 2013 are preliminary estimates; 2014-2018 are projections; the upper and lower bounds of the confidence interval are shown in the figures in annex 3. Source: ILO, Trends Econometric Models, October 2013; see also source of table A2 and annex 5.
Source: *2014 ILO Report on Global Employment Trends* (table, p. 1).

Table 2
Working poor ($2 per day), developing world and regions (2000-2018)

	Number of people (millions)						*Share in total employment (percentage)*					
Both sexes	*2000*	*2007*	*2011*	*2012*	*2013*	*2018*	*2000*	*2007*	*2011*	*2012*	*2013*	*2018*
World	1 199.2	989.5	878.1	851.0	839.0	736.2	45.9	33.7	28.7	27.4	26.7	22.0
Central and South-Eastern Europe (non-European Union) and Commonwealth of Independent States	17.9	8.1	6.7	6.4	6.0	4.7	12.3	5.1	4.1	3.9	3.6	2.8
East Asia	412.9	224.1	144.6	123.5	111.6	52.4	55.1	28.0	17.7	15.0	13.5	6.2
South-East Asia and the Pacific	150.9	114.8	98.9	94.8	93.9	75.9	62.3	41.9	33.3	31.3	30.5	23.0
South Asia	399.4	414.6	392.8	389.0	387.8	359.8	78.5	69.9	64.1	62.9	61.5	52.2
Latin America and the Caribbean	33.4	22.6	19.1	18.9	18.5	15.9	16.0	9.1	7.2	6.9	6.7	5.3
Middle East	3.8	4.9	4.9	5.0	5.0	4.9	9.3	8.7	7.6	7.5	7.4	6.4
North Africa	10.6	9.2	8.9	8.8	8.8	8.6	23.8	16.7	14.9	14.6	14.2	12.6
Sub-Saharan Africa	170.3	191.1	202.2	204.6	207.4	214.0	75.4	68.9	65.0	63.8	62.8	55.6

Note: 2012-2018 are projections. Totals may differ due to rounding. Source: ILO, Trends Econometric Models, October 2013; see also source of table A2.
Source: 2014 ILO Report on Global Employment Trends (table A14b).

Table 3
Informal employment as a percentage of non-agricultural employment (2004-2010)

South Asia: 82 per cent	Range: 62 per cent in Sri Lanka to 84 per cent in India
Sub-Saharan Africa: 66 per cent	Range: 33 per cent in South Africa to 52 per cent in Zimbabwe to 82 per cent in Mali
East and South-East Asia: 65 per cent	Range: 42 per cent in Thailand to 73 per cent in Indonesia
Latin America: 51 per cent	Range: 40 per cent in Uruguay to 75 per cent in Plurinational State of Bolivia
Middle East and North Africa: 45 per cent	Range: 31 per cent in Turkey to 57 per cent in West Bank and Gaza

Source: Vanek et al. 2014, also available at http://wiego.org/informal-economy/statistical-picture.

Table 4
Current investment, investment needs and gaps, and private sector participation in key Sustainable Development Goal sectors in developing countries (2015-2030)

		Estimated current investment, latest available year (billions of US dollars)	*Total investment required*	*Investment gap*	*Average private sector participation in current investment (percentage)*	
		Annualized billions of US dollars (constant price)				
Sector	*Description*	*(a)*	*(b)*	*(c) = (b)-(a)*	*Developing countries*	*Developed countries*
Power	Investment in generation transmission and distribution of electricity	~260	630-950	370-690	40-50	80-100
Transport	Investment in roads, airports, ports and rail	~300	350-770	50-470	30-40	60-80
Telecommunications	Investment in infrastructure (fixed lines, mobile and Internet)	~160	230-400	70-240	40-80	60-100
Water and sanitation	Provision of water and sanitation to industry and households	~150	~410	~260	0-20	20-80
Food security and agriculture	Investment in agriculture, research, rural development, safety nets, etc.	~220	~480	~260	~75	~90
Climate change mitigation	Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.	170	550-850	380-680	~40	~90
Climate change adaptation	Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.	~20	80-120	60-100	0-20	0-20
Ecosystems/ biodiversity	Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.		70-210			
Health	Infrastructural investment, e.g. new hospitals	~70	~210	~140	~20	~40
Education	Infrastructural investment, e.g. new schools	~80	~330	~250	~15	0-20

Source: UNCTAD, table IV.2.

Table 5
List of urban economic actors

Functions	*Legislative framework*	*Business environment*	*Trade logistics*	*Infrastructure and services*	*Access to finance*	*Human capital development*
National Governments	Department of Finance — Treasury Department of Trade and Industry (trade and industrial policy) Department of Land (land policy) Department of Environment (environmental policy) Department of Local government (intergovernmental relationships and funding regime)	Department of Justice (enforcement of rights and mediating conflict) Department of Land (registering land and property)	Department of Transport (transport policy) National ports, airport, railway and roads authorities Department of Planning National revenue authorities (port fees, import export fees, etc.)	Department of infrastructure and planning (policy framework) Department of Finance (infrastructure finance framework)	Department of Trade and Industry (loans to business/ small and medium-sized enterprises)	Department of Education and Training and Manpower Department of Health
Urban governments	Department of planning and development (regulation of municipal trading and land-use by-laws)	Departments of development and planning/ regulation (licensing, permits), economic development (services, incentives, business zones, incubators, etc.)	Department of transport — local road networks, ports authority	Municipal water, electricity and infrastructure companies	Department of Economic Development (partnerships with lending societies)	Department Education Training and Manpower Department of Health (primary health local clinics, hospitals)

Functions	*Legislative framework*	*Business environment*	*Trade logistics*	*Infrastructure and services*	*Access to finance*	*Human capital development*
International/ global actors	Multinational and bilateral institutions (international and regional trade agreements) United Nations (environmental policies and declarations) UNCTAD, UNIDO, WTO, ILO, etc.			World Bank Regional banking institutions Multinational and bilateral donors	Multinational and bilateral organizations focused on livelihoods	Multinational and bilateral donors in the health and livelihood sectors
Private sector		Business associations Individual firms and industry	Firms and service providers (clearing and forwarding companies, etc.) Import-export companies Suppliers/ producers	Privatized municipal service companies	Banks — (traditional) Cooperatives	Hospitals Training and educational institutions
Civil society		Non-profit business associations Lobby groups		NGOs providing urban services	NGOs working in the livelihood and business development sector	NGOs working in the health and education sectors Trade unions
Informal sector and workers		International, regional associations, Local trade and business associations, trade unions, cooperatives and firms		Local service providers (water, garbage collection, sewer)	Rotating credit and savings associations	

Annex II

Boxes

Box 1
Start-up cities

The late twentieth and early twenty-first centuries have seen the rapid emergence of a number of leading cities and urban regions, such as Boston and Silicon Valley, that specialize in building start-up companies that disrupt traditional markets and create new ones.[a] The success of these cities has resulted in intense concentration of innovation, wealth and high-value employment in the past 20 years.[b] Today, however, technology entrepreneurship is occurring around the world. Most start-up cities are communities inside large conurbations such as London, Berlin and Tel Aviv. But mid-size cities such as Austin and the Waterloo region in Canada are also successful. Importantly, this is not just a phenomenon of the developed world. Cities such as Bangalore, Sao Paulo and Santiago, and Nairobi[c] demonstrate that start-up cities can emerge in developing countries where the right environmental conditions exist.

What are those conditions? The key factors include the concentration of creative, highly motivated and entrepreneurial knowledge workers (engineering, design and business talent), mentorship from serial entrepreneurs, and access to venture capital. But the engine that drives a start-up ecosystem are the creative minds that build new companies. Their aspiration to live in dynamic, compact cities has created a shift in venture capital and technology start-ups to transit-supported, diverse urban centres.[d] As a result, start-up cities are also cities that are reinforcing international Sustainable Development Goals.

Start-up cities are not without challenges. As high-productivity, high-wage cities, their housing markets can be inflated and inaccessible to the working poor. But as generators of nationally and internationally significant innovation and high levels of productivity, they play an important part in the development of a competitive national economy.

[a] Compass, The Global Start-up Ecosystem Ranking 2015.
[b] Florida R., King K. Rise of the Global Start-up City: The Geography of Venture Capital Investment in Cities and Metros across the Globe, Martin Prosperity Institute, 2016.
[c] Greg Scruggs, How Nairobi built a thriving tech community, Citiscope, April 2015.
[d] Florida R., Start-up City: The Urban Shift in Venture Capital and High Technology. Martin Prosperity Institute, 2014.

Box 2
Macroeconomic reforms and economic development in urban China

China is the biggest success story in the history of contemporary poverty reduction. It was the fifth poorest economy in the world in 1981 in terms of incidence of extreme poverty (Ravalion, 2009). However, between 1981 and 2011, China managed to lift 753.75 million people out of extreme poverty, contributing 79.6 per cent of global poverty reduction over the same period (http://iresearch.worldbank.org/PovcalNetPPP2005). This was the result of sustained productivity growth. Between

1981 and 2005, its GDP per capita grew by 8.8 per cent per annum and its poverty headcount index fell from 84 per cent to 17 per cent (Ravalion, 2009). Its human development index rose from 0.501 in 1990 to 0.724 in 2014.

So what does explain this tremendous success? While the answer is debated, there is relative consensus that China benefited from two major structural transformations under its post-1978 macroeconomic reforms (including open-door policy): relocations of labour from agriculture to non-agriculture and from the State sector to the non-State sector. Between 1978 and 2004, agriculture's share of total employment fell from 69 per cent to 32 per cent, while the State sector's share of non-agricultural employment fell from 52 per cent to 13 per cent. These translated into a ninefold employment growth in the non-State sector, from 48.9 million in 1978 to 446 million in 2004, and 3.6-fold employment growth outside agriculture, from 144 million to 513 million (Brandt et al., 2008). Four factors, namely productivity growth in agriculture, relocation of labour from low-productivity agriculture to higher-productivity non-agriculture, the reductions in barriers to labour reallocation, and total factor productivity growth in the non-State sector, contributed to the aggregate labour productivity growth, with the fourth factor making the biggest contribution (40 per cent) (ibid.). In fact, these four factors were mutually reinforcing. Agricultural productivity growth benefited from both institutional changes (especially the introduction of the Household Responsibility System in the late 1970s), increased application of fertilizers and the absorption of labour by township and village enterprises that mushroomed to meet growing domestic and international demand for labour-intensive industrial products. The development of these rural industries in turn led to increased demand for capital goods, thus boosting industrialization and urbanization in China (Zhang, 2015).

Opening up played an important role in enabling the Chinese manufacturing firms to engage in a manufactured exports-oriented growth model. While inward FDI stock in China grew from $20.7 billion in 1990 to $832.9 billion in 2012 according to UNCTAD, Chinese exports value rose from $18 billion in 1980 to $2,209 billion in 2013. According to Chinese official statistics, the value of manufactured exports rose from $9 billion to $2,102 billion from 1980 to 2013, contributing 95.5 per cent of China's total exports growth during this period. Furthermore, the success of manufacturing has spurred a booming construction industry: from 2003 to 2013, the number of employed persons in urban units in manufacturing increased from 29.8 million to 52.6 million, compared with an increase from 8.3 million to 29.2 million in construction.

The recent success of China demonstrates the potential of macroeconomic reforms for creating productive employment, reducing poverty and enhancing welfare on a large scale.

References:

Brandt, L., Hsieh, C.-T. and Zhu, X., 2008. Growth and Structural Transformation in China, in L. Brandt and I. G. Rawski, eds. 2008. *China's Great Economic Transformation*. Cambridge: Cambridge University Press. pp. 683-728.

Ravalion, M., 2009. *A Comparative Perspective on Poverty Reduction in Brazil, China and India*. Policy Research Working Paper 5080. Washington, D.C.: World Bank.

Zhang, L.-Y., 2015. *Managing the City Economies: Challenges and Strategies in Developing Countries*. London: Routledge.

Box 3
Support for informal settlements in Senegal

Problem

Located in the western part of Africa, Senegal, with an area of 196,722 km^2, is inhabited by 13,508,715 people with a population growth rate of 2.7 per cent. In 1976, 34 per cent of the population lived in cities, increasing to 45.2 per cent in 2013. This urbanization led to the development of large informal settlements, representing 30-45 per cent of the total urban areas of the cities. These settlements generally have no infrastructure such as roads, water conveyance, electricity and sewage systems. They have no or not enough social facilities such as schools, sports grounds or any community infrastructure. A number of these settlements are located on floodplains and are periodically flooded, creating severe environmental problems. Residents of these settlements do not have legal tenure for their housing plots and they are often shifted from place to place and relocated elsewhere, far from the place of employment and schools.

Solution

Since 1989-1990, the Government has changed its policy towards these informal settlements and the people living there. Instead of shifting them from their site, the Government has decided to leave them and to improve the settlement by creating facilities and infrastructure and legalizing the land tenure of local residents. The plots are free of charge. People participate only in the financing of the infrastructure. The programme is based on a legal framework instituted by decree No. 91-784 of 29 July 1991.

Actions

Creation of a public agency operator named the Right to the City Foundation in 2000. It is officially recognized as beneficial to the public at large and has led to the creation of the housing improvement programme and a supporting fund for the programme (instituted by decree No. 96-386 of 15 May 1995), new planning of the site details, layout and size of the housing plots with the people, creation of facilities and infrastructure, and legalization of land tenure. The beneficiaries participate financially by giving a small amount of money. If the land of the informal settlement is privately owned, the Government may purchase it in order to secure clear title for the residents.

The programme includes economic support for women and full participation of citizens throughout the process (they decide how to divide the land, what the facilities are and what kind of infrastructure is to be built). The Right to the City Foundation works for the local bodies or for the Government in some cases.

Stakeholders

The Ministry in charge of city planning; the Departments of City Planning and Architecture, the Right to the City Foundation, the Ministry of Finance, the local bodies; beneficiaries; civil society; the Senegalese Housing Bank; the development partners: the German Agency for International Cooperation (GIZ), the European Union, UN-Habitat and the private sector.

Outcomes

The people living in the informal settlements can now have legal land tenure; 3,031 beneficiaries received their own private property (landed real estate); they can now borrow money from the Senegalese Housing Bank or other financial institutions by mortgaging the legal paper of their plot; the site is equipped with social facilities and adequate infrastructure; the environment is improved, the sanitary conditions well ameliorated. New property owners under the programme can obtain a building permit and build the house they want. Some jobs are created in the informal sector as a result of construction of the facilities and infrastructure.

Box 4

Participatory decision-making in a mid-size city of Turkey: Çanakkale

Çanakkale is a mid-size city located in north-western Turkey on the Asian coast of Dardanelles Strait. The population of the city is around 160,000. The city is listed in the second rank of the six groups established for the socioeconomic development index (SEGE 2011). The education level of the inhabitants is above the country average. Residents consist of retirees, civil servants and students.

Following Habitat II, Çanakkale was selected as one of the pilot cities for the implementation of Local Agenda 21. A local-civic initiative, which had already been organized in order to oppose the construction of the Dardanelles Strait bridge, extended support to the bottom-up decision-making model for the city. The Çanakkale City Council was established in 2004 and the action plan of the city was prepared in 2006-2008 by extensive participation of the inhabitants. Furthermore, the Municipality of Çanakkale initiated a participatory budgeting programme. The Fevzipaşa neighbourhood, located at the historical centre where the poorest Romani people live, was identified as a pilot site. The City Council carried out research in 2011, then established a neighbourhood council to discuss the possible means for the disadvantaged Romani people to participate in the local economy. This approach helped the unorganized Romani dwellers to participate in the decision-making processes involving their neighbourhood. The priorities of the local people for the participatory budget were improvement of the Zafer public space and development of social and cultural activities. Later this process was repeated in other neighbourhoods of Çanakkale, but the Fevzipaşa neighbourhood remained as the one with the highest number of participants.

The immediate result of these efforts was the establishment of the community social centre which was realized with the financial support of the Çanakkale Municipality. The Neighbourhood Council and the City Council carried out the coordination. Women and children constitute the target groups. Music, dance and photography courses for children and sewing courses for women are held with the help of volunteers and artists. The goal of the forthcoming projects is poverty alleviation through training and capacity-building of the poor for the service sector in the city.

References:

Aksakoğlu, E., Participatory Policies in Local Development: Çanakkale Case Study, Unpublished MS Thesis, Istanbul Technical University, 2007.

Başaran Uysal, A., Determination of Improvement Strategy for Historical Centre by Participatory Scenario Techniques, METU JFA 2013/2, (30:2), pp.137-162.

SEGE 2011 Socioeconomic Development Ranking of Cities and Regions, Ministry of Development, Ankara, 2013.

Box 5
Compact cities

Cities in different stages of development have, in general, very different conditions with respect to infrastructure and location of residents and jobs. These conditions can only be changed over time, but they can have a huge impact on urban economic development. Hence, urban economic strategies should be linked and embedded in the long-term strategic city plans and take into account and consider the benefits in city efficiency that may come from an upgraded infrastructure and the proximity between residents and jobs.

In this context, the concept of the compact city emerges in opposition to the sprawling city. Compact cities are, in general, linked to higher population densities and to a constrained city area. Functioning markets for land help to promote compact cities, as high land values encourage economizing on land use by, for example, building tall.

The benefits of a compact city are many, such as energy efficiency, shorter trips, more people interactions, a more physically active population, vibrant and safer neighbourhoods, greater economic activity and more employment opportunities. Compact cities also bring advantages to the city administration as the infrastructure and public facilities are utilized more intensively, city maintenance is facilitated, and fewer trips to collect garbage are required, among other benefits. Density enables and requires compatible public transportation systems, and when associated with mixed use and mixed income may lead to vibrant, healthier, safer and more diversified neighbourhoods with more walking and non-motorized trips. Quality and green public spaces are also essential ingredients of these denser neighbourhoods and there should be compatibility between both the planned infrastructures and higher densities.

Box 6
Local economic development in Morogoro, United Republic of Tanzania

In 2011, the City Council of Morogoro, United Republic of Tanzania, initiated a local economic development programme with the support of the Association of Local Authorities of Tanzania, the Federation of Canadian Municipalities and the City of Kitchener. Morogoro is a regional service centre, a secondary city at a crossroads in the national highway network. Its hinterland includes a significant agricultural area as well as one of the largest protected areas in Africa. The city is an education centre with several nationally important universities. The primary agricultural export is sisal, though numerous agricultural products are exported from the region, and a tourism industry is under development.

Morogoro's project began with a strategic planning process which included participants from a cross section of the local economy. Stakeholders identified cluster development opportunities as a key focus for future investment. The Morogoro Municipal Council has professional staff in areas related to economic development, including trade, community development, agricultural development, land-use planning and development, and the administration of a robust central market. However, there was no centralized economic development function in the municipal structure.

As a result of the programme, the Municipal Council began working with the local Chamber of Commerce to establish a small business centre. It had staff trained in local economic development and economic clusters. The city helped to launch six new cluster initiatives in diverse microindustries and small-scale industries such as milling, clothing, gemstone cutting and polishing, and furniture manufacturing. By 2015, 850 individuals, primarily entrepreneurs, were involved in cluster development initiatives to enhance their competitiveness and expand their businesses. Many of the entrepreneurs had previously been engaged strictly in the informal economy.

Reference:
https://www.fcm.ca/Documents/case-studies/International/2015/PARTNERSHIP_BETWEEN_THE_MOROGORO_MUNICIPAL_COUNCIL_AND_THE_CITY_OF_KITCHENER_E.pdf.

Box 7
Information, dialogue and negotiating platforms

The WIEGO network and its partners have seen significant advances in cities where the city's elected officials and administration engage positively with informal workers to explore mutual solutions. In these cities, including Accra, Bangkok and Lima, several types of platforms have been successfully developed as a mechanism for ensuring productive dialogue between cities and urban informal workers. Specific platform types or approaches include the following:

- Information-sharing platforms — space for information sharing and discussion of common interests at regular frequency between urban informal workers, government authorities, and NGOs/researchers/academics.
- Dialogue platforms — purpose-driven, non-confrontational, facilitated dialogues between workers and government officials for building awareness/understanding but not necessarily for agreement or specific results.
- Negotiating platforms – - as a space for dialogue and negotiation between urban informal workers and government authorities moving towards agreement(s) on specific issues with authority to make agreements.

These platforms are supported by capacity-building activities to help strengthen the membership-based organizations of urban informal workers as they engage in the platforms, as well as research and documentation to provide information necessary to support informed decision-making at the city level.

Box 8
São Paulo Urban Operation Law

São Paulo introduced an urban intervention mechanism called "Urban Operation" which was later adopted as law for cities in Brazil (city statute). This instrument is directed to areas that need structural transformations, social uplift and environmental improvements. It has a value capture instrument that minimizes the public investment required to cover the costs of its implementation such as infrastructure and social housing.

In a given area, an Urban Operation law defines the perimeter, goals, urban master plan and new infrastructure required. Funding may be obtained by auctioning certificates (CEPACs) that can be converted by the developer into additional building rights above the basic floor area ratio up to that defined by the law. In effect, developers are buying an option to densify in specific areas of the city. CEPACs are auctioned at the stock exchange and supervised by a regulatory agency (CVM), providing credibility and transparency to the process. The system also builds in community participation by including civil society from the planning process to the implementation phase.

From an economic development perspective it is a powerful instrument since, in addition to capturing value and allowing key investments that the city's budget might not otherwise support, it can induce the transformation of areas according to the city's long-term vision. For example, the Urban Operation "Água Espraiada" is providing funds for a transit corridor and for transforming precarious settlements into high-quality and well-located social housing, at the same time that it is helping to configure the third business district of the city. Urban Operation "Água Branca" should induce the transformation of low-density industrial areas into inclusive mixed-income, mixed-use and dense neighbourhoods supported by transit infrastructure.

Box 9

Local government, transport investment and equity: the case of Medellin, Colombia

Decisions around transport infrastructure lie at the core of what many city governments do. Such decisions often benefit some groups over others, by for example contributing to land price increases in wealthier neighbourhoods or providing faster access to cars in suburban locations. They have the potential to help guide future urban growth but equally crucially they can be powerful tools for a more equitable distribution of the benefits of economic growth or, alternatively, for further marginalizing already marginalized populations and individuals.

Medellin, Colombia's second largest city, offers a remarkable case of socially progressive investment in transport infrastructure and physical upgrading of low-income areas that has helped compensate for growing income inequalities and deeply entrenched violence and social dislocation. At the centre of this are three cable-car lines that connect an overground rapid transit system with hitherto partially isolated dense and hilly neighbourhoods marked by high levels of unemployment and violence. Launched in the early 2000s, this was the first time this fast, low-emission mode of transport adapted from ski lifts was used to help reduce the high levels of spatial segregation so pervasive in many Latin American cities. In financial terms, public investment in creating or upgrading public spaces and small parks, roads, education and leisure facilities, and building capacity for the local population, dwarfed investments in the cable-car lines. Crucial to these interventions in this city of 3.5 million inhabitants was a stable revenue base, an updated cadastral system, and a sophisticated betterment tax system. Also important was a decision to employ local inhabitants in all public works done in the neighbourhoods.

Investments were made possible by the coordinated action of strong, highly respected publicly owned local institutions, including the utilities company, Empresas Públicas de Medellin (EPM). EPM is in effect a multinational public company with assets in excess of $10 billion that between 2010 and 2012 transferred close to $1.4 billion in surplus to the municipal government, providing much-needed cash for projects, particularly for the city's troubled low-income settlements.

Reference:

Dávila, Julio D. (ed.), 2013, *Urban Mobility and Poverty: Lessons from Medellin and Soacha, Colombia*, DPU-UCL and Universidad Nacional de Colombia (freely downloadable and also available in Spanish).

Box 10

Street vendors in South Africa

In South Africa, one third of all economically active persons are engaged in the informal economy, and, in urban areas, nearly 30 per cent of all informal workers are involved in trade. Despite the predominance of informal trade in South Africa and elsewhere, there are very few good examples of inclusive urban planning for street traders. For many years, Warwick Junction, a precinct in the inner city of Durban that houses, on a busy day, up to 8,000 street and market traders, was looked to as best practice of street vendor management and support, characterized by high levels of consultation with and support to the street vendors, including the building of shelter, the provision of infrastructure services, and the design of equipment.

But in February 2009, to the surprise of many, the Durban/eThekwini Municipality announced its plans to grant a 50-year lease of public land to a private developer to build a shopping mall in Warwick Junction, at the site of the Early Morning Market, a fresh produce market in the centre of the Junction that was to celebrate its centenary in 2010. These plans entailed a redesign of the whole district ensuring that the foot traffic, estimated at 460,000 commuters a day, would be directed past the mall rather than the informal traders, threatening the viability of all street and market traders in the Junction.

There was a groundswell of opposition to the proposal and a major civil society campaign opposing the development ensued. There has been a long history of street trader organizing in Durban in general and in the Warwick Junction in particular. Street trader organizations were supported by the Congress of South African Trade Unions and the South African Communist Party in the KwaZulu-Natal province who publicly opposed the proposals. Durban is also the headquarters of the international alliance of street trader organizations or StreetNet. Civil society groups meet weekly under StreetNet's campaign World Class Cities for All. Urban practitioners and academics also joined the campaign — writing letters to the press, arranging public debates and giving technical assistance. Central to this campaign was a series of legal cases pursued by a public interest, non-profit law firm — the Legal Resources Centre (LRC).

The essence of the case was challenging the process by which the city awarded the contract to a private real estate developer, thus drawing on administrative law. This entailed close scrutiny of a vast number of council documents the City was forced to furnish the legal team. It is unlikely that the case would have been won with reference to socioeconomic rights alone. With respect to the process, on the one hand the legal case was a key component of a major civil society campaign, while on the other hand civil society support and input were critical to the success of the legal case. Asiye eTafuleni, a local non-governmental organization that provides technical support to the informal economy active in the area facilitated access to appropriate claimants for LRC and monitored daily developments in the market, so alerting LRC to day-to-day harassment of traders by the city. These traders were supported by a strong network of trader organizations that have been operating in the area for years and the broader civil society group that rallied around this issue. Finally a group of urban practitioners identified with this issue and gave professional expertise — advice on environmental impact assessment processes, heritage legislation, urban design and architectural inputs all of which informed the court papers.

By April 2011 the City Council finally rescinded its 2009 decision to lease the market land for the mall development noting that there was "little prospect of the legal challenges relating to the current proposal being resolved". This was a major victory for the street vendors of Warwick Junction. In 2014, the Legal Resources Centre with support of many of the same allies won another legal case which ruled against the confiscation of street vendor goods as illegal, unconstitutional and immoral.

Box 11
Waste pickers in Colombia

For decades, if not centuries, *recicladores* (waste pickers) in Colombia's capital, Bogotá, have earned a living by recycling metal, cardboard, paper, plastic, and glass and selling the recycled material through intermediaries. Today there are an estimated 12,000 *recicladores* in Bogotá. Waste picking is a difficult job, and workers are subject to arbitrary pricing by middlemen and to harassment and discrimination on the streets.

The privatization of public services, including waste collection, threatened the livelihoods of the *recicladores*. Municipal governments have been allowed to give exclusive contracts to private companies for the collection, transport, and disposal of waste and recyclables. Over the past 10 years, *recicladores* have struggled to continue waste picking and have filed legal claims to preserve their occupation. Organizations such as the Asociación de Recicladores de Bogotá (ARB), an umbrella association of cooperatives representing over 2,500 waste pickers in Bogotá, played a key role in aggregating claims and taking the legal cases forward.

The *recicladores* achieved a landmark victory in 2003 when the Constitutional Court ruled that the municipal government's tendering process for sanitation services had violated the basic rights of the waste-picking community. In making its case, the association and its pro bono lawyers appealed to the Constitution's provision of the right to equality, arguing that waste pickers should be allowed preferential treatment and judicial affirmative action in the tendering and bidding process for government contracts to manage waste.

Subsequent cases have appealed to constitutional provisions, including the right to survival as an expression of the right to life (art. 11 of the Constitution), which was used to argue the right to pursue waste picking as a livelihood, and the right to pursue business and trade (art. 333), which was used to argue that cooperatives of waste pickers — and not only corporations — can compete in waste recycling markets. The most recent ruling, in December 2011, halted a scheme to award $1.7 billion worth of contracts over 10 years to private companies for the collection and removal of waste in Bogotá City. The court mandated that the cooperatives of waste pickers had a right to compete for the city tenders and gave ARB until 31 March 2012 to present the municipality with a concrete proposal for solid waste management inclusive of the waste-picking community. With the help of allies, ARB prepared such a proposal, elements of which were adopted into the official proposal made by the district agency in charge of the city's public service. In March 2013, the city began to pay waste pickers for their waste collection and transport services. However, since then, the political fortunes of the Bogota model of waste picker integration into solid waste management have gone up and down and remain uncertain: the mayor of Bogota who implemented the 2011 constitutional ruling in favour of the waste pickers was forced to resign but a national decree mandated that the Bogota model should be replicated in other cities of the country.

Box 12
Subsector mapping

A subsector is the network of actors and enterprises involved in the production and distribution of a given good or service. Some subsectors are delineated by a specific end product (e.g. garment); others are delineated by a specific raw material (e.g. recycled waste material) or commodity (e.g. onion); still others are delineated by a specific type of service (e.g. waste collection and disposal).

Subsector mapping refers to the identification and analysis of the principal functions, participants and channels or flows in a subsector. Mapping of subsectors will help city planners and policymakers identify the bottlenecks and opportunities facing different sizes of enterprises — especially the medium-sized, small and informal enterprises — within key subsectors in the local economy. This should be done in consultation with the participants in each key subsector with a view to helping them address bottlenecks and seize opportunities and, thus, increasing their productivity and enhancing the local economy.

The subsector mapping should involve the following steps:

(a) The key functions, tasks or operations in the subsector should be specified: from input supply to production, assembly or processing to marketing;

(b) The key participants in the subsector should be identified according to what function they perform and also where they are located: input supplier; producer, assembler or processor; wholesale, retail or informal marketer;

(c) The primary channels — the transactions — through which goods or services flow should be specified, with a view to understanding the relationships between the various participants and to identifying specific bottlenecks and opportunities along the subsector chain.

The mapping of key subsectors in the city economy, if done in joint consultation with the participants, would serve to identify both opportunities and constraints to local economic development; identify clusters of production and distribution along the subsector chain; develop understanding and consensus between different participants; and, in the process, identify the most appropriate and acceptable policy measures to increase productivity of all participants in the subsector.

References:

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Haggblade, Steven and Matthew Gamser. 1991. "A Field Manual for Subsector Practitioners" Tools for Microenterprise Programs: Nonfinancial Assistance Section. Washington, D.C.: The GEMINI Project, Development Alternatives, Inc.